Canadian Grain Commission | Commission canadienne des grains

Quarterly Financial Report:

Statement Outlining Results, Risks and Significant Changes in Operations, Personnel and Programs (Unaudited)

For the Period ended September 30, 2011

Canada

TABLE OF CONTENTS

1. INTRODUCTION 1

1.1 Authority, Mandate and Program Activities 1
1.2 Basis of Presentation 1
1.3 CGC Financial Structure 2

2. HIGHLIGHTS OF FISCAL YEAR TO DATE 3

2.1 Authority Available Analysis 3
2.2 Authority Used Analysis 4

3. RISKS AND UNCERTAINTIES 5

4. SIGNIFICANT CHANGES TO OPERATIONS, PERSONNEL AND PROGRAMS 6

STATEMENTS OF BUDGETARY AUTHORITIES (UNAUDITED) 7

DEPARTMENTAL BUDGETARY EXPENDITURES BY STANDARD OBJECT (UNAUDITED) 8

1. Introduction

This quarterly financial report should be read in conjunction with the *Main Estimates* and *Supplementary Estimates*. It has been prepared by Canadian Grain Commission (CGC) management as required by section 65.1 of the *Financial Administration Act* and is in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. This quarterly report has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

The Canadian Grain Commission was established in 1912 and is the federal government agency responsible for administering the provisions of the *Canada Grain Act* (CGA).

The CGC's mandate as set out in the CGA is to, "in the interests of the grain producers, establish and maintain standards of quality for Canadian grain and regulate grain handling in Canada, to ensure a dependable commodity for domestic and export markets."

The CGC's vision is to be "A leader in delivering excellence and innovation in grain quality and quantity assurance, research, and producer protection." The CGC reports to Parliament through the Minister of Agriculture and Agri-Food.

In order to effectively pursue its mandate, the CGC aims to achieve the following strategic outcome: **Canada's grain is safe, reliable and marketable and Canadian grain producers are protected**.

The CGC's Program Activity Architecture has five program activities that each contribute to making progress to the sole strategic outcome. The program activities are:

- Quality Assurance Program,
- Quantity Assurance Program,
- Grain Quality Research Program,
- Producer Protection Program, and
- Internal Services.

Further details on the CGC's authority, mandate and program activities may be found in the *Report on Plans and Priorities* and the *Main Estimates*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting (modified cash) and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying Statement of Budgetary Authorities compares the Department's spending authorities granted by Parliament to those used by the department. Information in the Statement of Authorities is consistent with that in the Main Estimates.

The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits through *Appropriations Acts* or through legislation in the form of statutory spending for specific purposes.

When Parliament is dissolved for the purposes of a general election, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be appropriation for the fiscal year in which it is issued.

The CGC uses the full accrual method of accounting to prepare and present its annual departmental financial statements included in the *Departmental Performance Reports.* However, the spending authorities voted by Parliament remain on an expenditure basis (modified cash) of accounting.

1.3 CGC Financial Structure

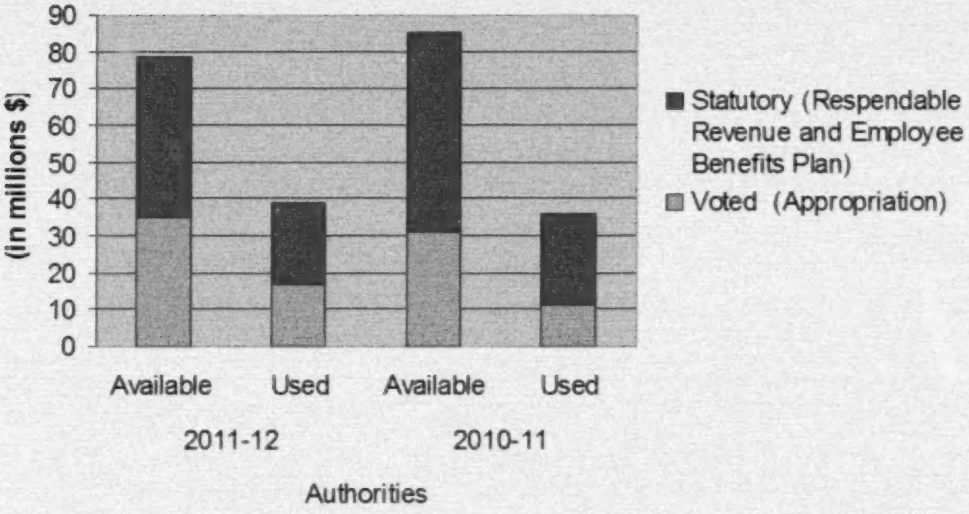
The CGC is funded by a combination of an ongoing appropriation, special appropriation and authority to re-spend fees collected. A revolving fund was set up for the CGC in 1995 with the expectation that the CGC would be largely self-funded through fees for service. However, the revolving fund has not worked as expected. CGC user fees have not increased since 1991, operating costs have continually increased, and annual grain volumes can fluctuate considerably from year to year. As a result, overall cost recovery has fallen from approximately 90 percent in the early 1990s to between 50 and 60 percent today. The CGC's falling cost recovery level has caused the CGC to rely on ad hoc government appropriation since 1999 to fund operations on an annual basis.

The CGC funding structure is based on budgetary authorities that are comprised of both statutory and voted (non-statutory) authorities. The statutory authorities include employee benefit plan authority for appropriation funded positions and the CGC revolving fund authority which allows the CGC to re-spend fees that it has collected. The voted authority is Vote 30 – Program Expenditures that includes annual appropriation authority and any ad hoc appropriation authority for the fiscal year.

2. Highlights of Fiscal Year to Date

This section highlights any significant items that affected the year-to-date results and/or contributed to the net change in resources available for the year and actual expenditures.

Authorities Available and Used
For the period ended September 30, 2011



Overall, the CGC's 2011-12 year to date expenditures have increased slightly as compared with the previous year. An explanation of the decrease in total available authorities for 2011-12 compared to 2010-11 as at September 30, 2011 is provided in Section 2.1. An explanation of the variance between 2010-11 and 2011-12 year to date used statutory and voted authorities is provided in Section 2.2 below.

2.1 Authority Available Analysis

As noted in the attached Statement of Budgetary Authorities, there is a decrease of approximately $7.2 million in the CGC's authorities available for use as at September 30, 2011 compared to the authorities available for use as at September 30, 2010.

The following explains the decrease in authorities available:

1. Through Budget 2010, the CGC received an increase of $4.2 million in its ad hoc appropriation authority for 2011-12. Budget 2010 identified ad hoc appropriation authority of $26.0 million for 2010-11 and $30.2 million for 2011-12.

2. Budget 2010 identified that the CGC should seek authority to access a portion of its accumulated surplus to support its operations in the amount of $11.4 million for 2010-11 and $8.5 million for 2011-12. As at September 30, 2011, the CGC had initiated the process to receive authority to access $8.5 million of its accumulated surplus but had not yet been granted approval. This results in a $11.4 million decrease in statutory authority available for use in 2011-12 as at September 30, 2011.

Total expenditures available for use reflected in the Departmental Budgetary Expenditures by Standard Object differ from Main Estimates with respect to non-appropriation authorities. Planned spending forecasts re-spendable revenues of $37.1 million based on projected grain volumes of 50 million tonnes, while Main Estimates reflect the authority limit to re-spend revenue of $42.9 million in 2011-12 and $42.5 million in 2010-11.

2.2 Authority Used Analysis

As noted in the attached Statement of Budgetary Authorities, there was an increase of approximately $3.0 million in the CGC used authorities as compared to the year to date for 2010-11.

The following explains the difference in authorities used:

1. The current funding structure incorporates the use of ad hoc appropriation to support the decline in cost recovery activities. With the decrease in use of statutory authorities, there was an increase of $5.7 million in the use of voted authorities.

2. There was a decrease of $2.7 million in expenditures charged to the CGC Revolving Fund as compared to year to date for 2010-11. The CGC currently has the authority to re-spend any fees that it collected. For the year to date for 2010-11, the CGC had its authority to re-spend fees collected in addition to the authority to access its accumulated surplus.

Total year to date expenditures used in the attached Departmental Budgetary Expenditures by Standard Object incurred year to date increased by 8.7% as compared to 2010-11.

The following explains changes in departmental expenditures by standard object used:

1. Personnel expenditures increased by 8.4% as compared to year to date last year. This increase is a result of
    a. continued increases to salary levels,
    b. increase of 1% in employee benefit plan contributions, and
    c. liquidation of severance as a result of collective agreements occurring in the second quarter.

2. Professional and special services expenditures have increased 47% as compared to year to date for the previous year. The CGC has increased its use of consultants to conduct studies and to support the implementation of Government of Canada and CGC initiatives.

As noted in the attached Statement of Budgetary Authorities, there was an increase of approximately $0.6 million in the CGC used authorities in the 2011-12 second quarter as compared to 2010-11. Total expenditures incurred in quarter two increased by 13.3 % as compared to quarter two in 2010-11. Explanations for variances quarter two variances are consistent with those provided for the year to date.

3. Risks and Uncertainties

The CGC receives funding through both voted appropriations and fees related to the handling of grain. Service fee revenue is largely based on grain volumes handled—a volume which fluctuates from year to year. Current ongoing authorities provide identified funding for approximately 50% of the resource requirement for the CGC. For the remaining 50%, the CGC received ad hoc funding secured through Budget 2010.

The absence of a stable funding formula creates risk for the organization in a number of ways.

First, there is the risk that lack of funding will negatively affect ability to make decisions, and to fully deliver the mandate. This is not only felt through a potential shortage of qualified staff, but in the risk that the CGC's scientific technological capacity will not keep pace with the evolving needs of the grain industry. To address these risks the CGC must ensure that resources are targeted toward existing and emerging grain quality and safety issues, and that capital budget allocations are sufficient to acquire equipment used in international laboratories

Additionally, there is a risk that aging infrastructure will lead to increased maintenance costs which cannot be managed due to fiscal restraints. To address this risk, the CGC has identified the expected life cycle of all facilities and has created a long term investment plan that identifies required upgrades to facilities, complete with cost assessments that justify the recommended investment in renewal.

To address the funding challenge, the CGC is currently consulting on its user fees to form a sustainable funding base. The revolving fund is utilized as effectively as possible, including planning for and accommodating a potential 20 percent swing in projected grain volumes during budgeting. The annual budget is also re-profiled through the year to deal with shifting needs and priorities that have arisen.

This Departmental Quarterly Financial Report reflects the results of the current fiscal period in relation to the Main Estimates and Supplementary Estimates A for which full supply was released on June 27, 2011.

Budget 2010 announced that departments would be frozen at their 2010-11 levels for fiscal years 2011-12 and 2012-13. Management continues to review various options to adjust to these constraints in funding and the impact on departmental activities has been managed through the following actions and mitigation strategies:

1. Staffing needs to deal with fluctuating grain volumes and the delivery of mandatory services will be addressed with the use of overtime for existing staff or the hiring of term and casual employees;
2. The CGC has made the decision to forego discretionary capital spending during this period of restraint. Purchases will be made on a "mission critical" basis only;
3. The CGC continues to monitor and control discretionary expenditures; and
4. The CGC continues to search for efficiencies through the sharing of internal services with other government departments.

Budget 2011 announced that departmental budgets would be examined through the Deficit Reduction Action Plan. However, the nature, timing and impact to the CGC are unknown at this time.

4. Significant Changes to Operations, Personnel and Programs

There have been no significant changes in relation to operations, personnel and programs over the past year.

Approved by:

Elwin Hermanson
Chief Commissioner
Winnipeg, Manitoba
November , 2011

Jacqueline Pearce
Acting Chief Financial Officer
Winnipeg, Manitoba
November , 2011

Statements of Budgetary Authorities (Unaudited)

For the period ended September 30, 2011

(in thousands of dollars)	Fiscal Year 2011-12 Total available for use for the year ending March 31, 2012*	Used during the quarter ended September 30, 2011	Year-to date at quarter end	Fiscal Year 2010-11 Total available for use for the year ending March 31, 2011*	Used during the quarter ended September 30, 2010	Year-to date at quarter end
Vote 30						
Program Expenditures	$ 35,030	$ 7,604	$ 16,894	$ 30,924	$ 9,898	$ 11,129
Statutory Authorities:						
Revolving Fund Gross Expenditures	42,763	12,420	21,673	53,810	7,754	24,328
Revolving Fund Gross Revenues	(42,883)	(12,429)	(21,793)	(42,530)	(10,622)	(21,694)
Revolving Fund Net Expenditures**	($ 120)	($ 9)	($ 120)	$ 11,280	($ 2,868)	$ 2,633
Employee Benefit Plan	622	155	311	589	147	294
Total Statutory Authorities	502	146	191	11,869	(2,721)	2,928
Total Budgetary Authorities	$ 35,532	$ 7,750	$ 17,085	$ 42,793	$ 7,177	$ 14,057

**** Includes only Authorities available for use and granted by Parliament at quarter-end***
***** Includes adjustment for inclusion of accountable advances***

Due to rounding, totals may not add to totals shown.

Departmental Budgetary Expenditures by Standard Object (unaudited)

For the period ended September 30, 2011

(in thousands of dollars)	Fiscal Year 2011-12 Total available for use for the year ending March 31, 2012*	Expended during the quarter ended September 30, 2011	Year-to date at quarter end	Fiscal Year 2010-11 Total available for use for the year ending March 31, 2011*	Expended during the quarter ended September 30, 2010	Year-to date at quarter end
Expenditures:						
Personnel	$ 60,900	$ 17,035	$ 32,561	$ 67,188	$ 14,960	$ 30,034
Transportation and communication	3,510	1,016	1,877	3,842	859	1,718
Information	126	44	67	240	97	107
Professional and special services	1,956	345	1,046	1,594	231	712
Rentals	3,732	1,004	1,995	4,472	1,002	1,999
Repairs and Maintenance	675	113	361	511	10	228
Utilities, materials and supplies	615	156	329	667	154	299
Acquisition of machinery and equipment	1,199	465	641	1,440	476	644
Other Subsidies and payments	2	1	1	22	10	10
Total Expenditures	**$ 72,715**	**$ 20,179**	**$ 38,878**	**$ 79,976**	**$ 17,799**	**$ 35,751**
Adjustments:						
Revolving Fund Limit Available Not Planned for Use	5,700			5,347		
Revenue Credited to Vote	(42,883)	(12,429)	(21,793)	(42,530)	(10,622)	(21,694)
Total Adjustments	**(37,183)**	**(12,429)**	**(21,793)**	**(37,183)**	**(10,622)**	**(21,694)**
Total Budgetary Authorities	**$ 35,532**	**$ 7,750**	**$ 17,085**	**$ 42,793**	**$ 7,177**	**$ 14,057**

**** Includes only Authorities available for use and granted by Parliament at quarter-end***